

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>LAKELAND LIBRARY COOPERATIVE</b>	County <b>KENT</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>11/9/05</b>	Date Accountant Report Submitted to State: <b>12/22/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>REHMANN ROBSON - DOUGLAS J. VREDEVELD, CPA, PRINCIPAL</b>			
Street Address <b>2330 EAST PARIS AVENUE SE, P.O. BOX 6547</b>		City <b>GRAND RAPIDS</b>	State <b>MI</b>
		ZIP <b>49516-6547</b>	
Accountant Signature 		Date <b>12/22/05</b>	

**LAKELAND LIBRARY COOPERATIVE**

**GRAND RAPIDS, MICHIGAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

# LAKELAND LIBRARY COOPERATIVE

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# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

## **INDEPENDENT AUDITORS' REPORT**

November 9, 2005

To the Board of Directors  
Lakeland Library Cooperative  
Grand Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund, of Lakeland Library Cooperative as of and for the year ended September 30, 2005, which collectively comprise the Cooperative's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Lakeland Library Cooperative, as of September 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Lakeland Library Cooperative (the "Cooperative"), we offer readers of the Lakeland Library Cooperative financial statements this narrative review and analysis of the financial activities for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### **Financial Highlights**

#### **1. Budget Stabilization Fund**

Because of their prudent budgeting practices, the Cooperative Board restored this designated fund balance to its full level of \$250,000 at the end of FY 2003. During FY 2005, this fund remained untouched, and ended the fiscal year still at its full allotment.

#### **2. Other Fund Balances**

In keeping with their practice of planning for future contingencies and potential major expenditures, the Cooperative Board has also designated funds for a number of important purposes: Building Improvements (\$30,000); Network Upgrades (\$7,000; down from \$30,000 because of planned expenditures during FY 2005); and Capital Replacements (\$140,596). In addition, the Board is carrying an "Undesignated" fund balance of \$116,589 into FY 2006.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Cooperative's financial statements. The Cooperative's basic financial statements comprise three components:

1. government-wide statements
2. fund financial statement, and
3. notes to the financial statements

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page.

## **Government-wide Statements**

The *statement of net assets* presents information on all of the Cooperative's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Cooperative is improving or deteriorating.

The *statement of activities* presents information showing how the Cooperative's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 9 and 11 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Cooperative, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Cooperative is accounted for in a governmental fund (General Fund).

**Governmental funds.** *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Cooperative maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Cooperative. The general fund is a major fund for financial reporting purpose as defined by GASB Statement No. 34.

The Cooperative adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 9-13 of this report.

The Cooperative does not maintain proprietary nor fiduciary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the Cooperative's financial statements. The notes to the financial statements can be found on pages 14 through 20 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

## Government-wide Financial Analysis

The following tables reflect a comparative analysis of government-wide data.

### Lakeland Library Cooperative Net Assets

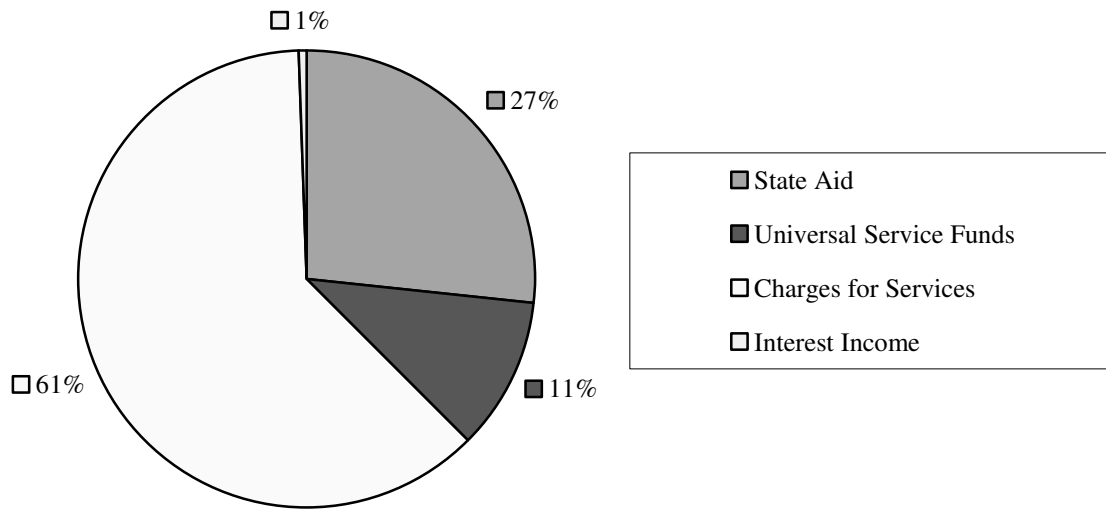
	FY 2004 Governmental <u>Activities</u>	FY 2005 Governmental <u>Activities</u>
Current and other assets	\$ 833,042	\$ 983,929
Capital assets	<u>892,380</u>	<u>798,841</u>
Total assets	<u>1,725,422</u>	<u>1,782,770</u>
Long-term liabilities outstanding	51,281	57,551
Other liabilities	<u>87,169</u>	<u>90,886</u>
Total liabilities	<u>138,450</u>	<u>148,437</u>
Net assets:		
Invested in capital assets, net of related debt	892,380	798,841
Unrestricted	<u>694,592</u>	<u>835,492</u>
Total net assets	<u>\$1,586,972</u>	<u>\$1,634,333</u>

# Lakeland Library Cooperative Change in Net Assets

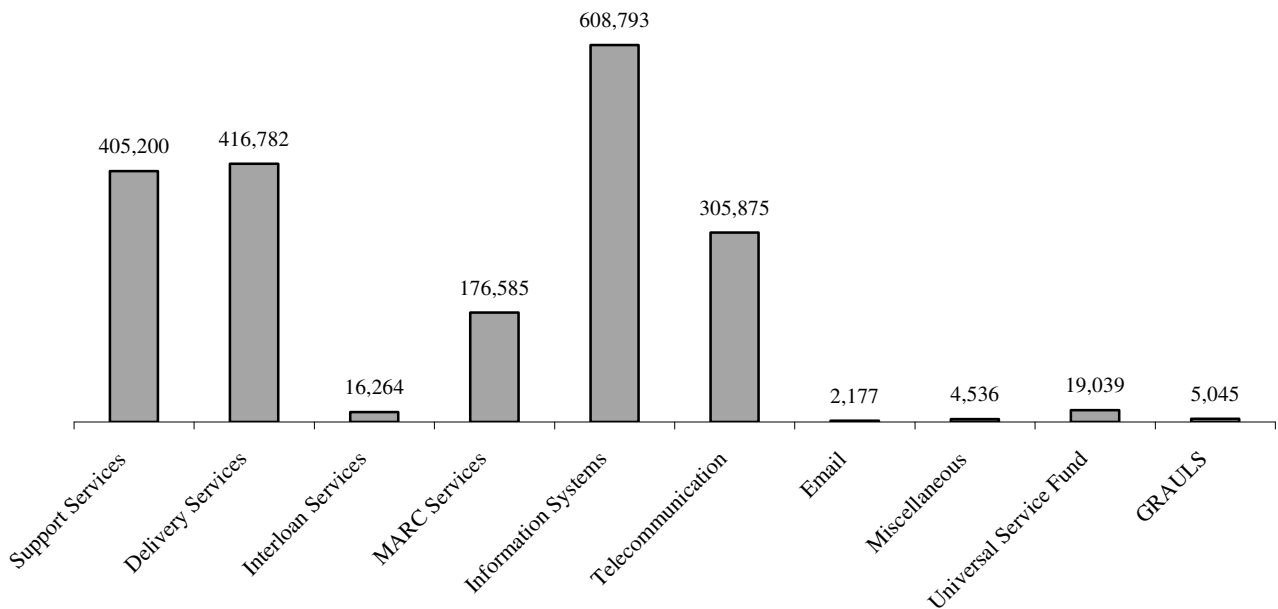
	FY 2004 Governmental <u>Activities</u>	FY 2005 Governmental <u>Activities</u>
Revenue:		
Program revenue:		
Charges for services	\$1,319,987	\$1,240,884
General revenue:		
State Aid	535,830	534,847
Universal Service Funds	76,487	218,336
Interest income	<u>4,472</u>	<u>13,590</u>
Total revenue	<u>1,936,776</u>	<u>2,007,657</u>
Expenses:		
Support Services	417,270	405,200
Delivery Services	405,370	416,782
Interloan Services	20,606	16,264
MARC System	172,136	176,585
Information Systems	634,841	608,793
Telecommunication	308,875	305,875
Email	4,362	2,177
Miscellaneous	3,819	4,536
Universal Service Fund	20,594	19,039
GRAULS	<u>4,368</u>	<u>5,045</u>
Total expenses	<u>1,989,241</u>	<u>1,960,296</u>
Change in net assets	(52,465)	47,361
Net assets – beginning of year	<u>1,639,437</u>	<u>1,586,972</u>
Net assets – end of year	<u>\$1,586,972</u>	<u>\$1,634,333</u>



### Revenues by Source - Governmental Activities



### Expenditures - Governmental Activities



## Capital Assets and Debt Administration

### Capital Assets

Major capital asset purchases during the current fiscal year included the following:

- Network improvements.

#### Lakeland Library Cooperative Capital Assets (net of depreciation)

	2004 Governmental <u>Activities</u>	2005 Governmental <u>Activities</u>
Land and Improvements	\$ 76,518	\$ 76,518
Office Furniture	46,328	31,329
Building	206,597	198,945
Building Improvements	53,871	52,883
Training Center Furniture and Equipment	22,907	12,361
Information System	<u>562,677</u>	<u>426,805</u>
Total	<u>\$968,898</u>	<u>\$798,841</u>

Additional information on the Cooperative's capital assets can be found in Note 7 on page 20 of this report.

### Long-term debt

#### Lakeland Library Cooperative Outstanding Debt

	2004 Governmental <u>Activities</u>	2005 Governmental <u>Activities</u>
Compensated absences	<u>\$51,281</u>	<u>\$57,551</u>

Additional information on the Cooperative's long-term debt can be found in Note 4 on page 19 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the Cooperative's budget for the 2005-2006 fiscal year:

- Based on legislative action, we anticipated no change in direct State Aid revenue for fiscal year 2006, but State Aid to member libraries will take a significant cut. As a result, we have made some difficult budgeting decisions, including the elimination of our Superloan department, and the reduction of .5 FTE in our IS department. We also anticipate using some of our designated capital replacement fund for expenditures during FY 2006. The remaining budgetary deficit will be covered by a combination of line-item savings during the fiscal year (i.e.: not expending every line item by 100%) and use of the Undesignated Fund Balance.

## **Financial Analysis of the Government's Funds**

As of the end of the current fiscal year the combined fund balance/net assets of \$1,634,333 reflects an increase of \$47,361 from the previous year.

Significant changes in the original budget were as follows:

1. Additional Universal Service Fund income reflects payments received on behalf of member libraries.
2. Additional Universal Service Fund expenses reflect payments to member libraries of funds being held on their behalf.

## **Requests for Information**

This financial report is designed to provide a general overview of Cooperative's finances for all those with an interest in the Cooperative's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director or Administrative Services Manager, Lakeland Library Cooperative, 4138 3 Mile Road NW, Grand Rapids, Michigan 49534-1134.

# LAKELAND LIBRARY COOPERATIVE

## STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

SEPTEMBER 30, 2005

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
<b>ASSETS</b>			
Cash and deposits	\$ 941,992	\$ -	\$ 941,992
Receivables:			
Fees and services	6,188	-	6,188
Prepaid items	35,749	-	35,749
Land	-	76,518	76,518
Other capital assets, net of accumulated depreciation	-	722,323	722,323
<b>TOTAL ASSETS</b>	<b>\$ 983,929</b>	<b>798,841</b>	<b>1,782,770</b>
<b>LIABILITIES</b>			
Accounts payable	\$ 47,236	-	47,236
Accrued liabilities	43,650	-	43,650
Long-term liabilities:			
Due after one year	-	57,551	57,551
<b>TOTAL LIABILITIES</b>	<b>90,886</b>	<b>57,551</b>	<b>148,437</b>
<b>FUND BALANCE/NET ASSETS</b>			
Fund balance:			
Reserved for prepaid items	35,749	(35,749)	-
Unreserved			
Designated for budget stabilization	250,000	(250,000)	-
Designated for member USF funding	310,342	(310,342)	-
Designated for building improvements	30,000	(30,000)	-
Designated for network upgrades	7,000	(7,000)	-
Designated for GRAULS expenditures	2,767	(2,767)	-
Designated for capital replacements	140,596	(140,596)	-
Undesignated	116,589	(116,589)	-
<b>TOTAL FUND BALANCE</b>	<b>893,043</b>	<b>(893,043)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 983,929</b>		
<b>Net assets:</b>			
Investment in capital assets		798,841	798,841
Unrestricted		835,492	835,492
<b>Total net assets</b>		<b>\$ 1,634,333</b>	<b>\$ 1,634,333</b>

The accompanying notes are an integral part of these financial statements.

# LAKELAND LIBRARY COOPERATIVE

## Reconciliation of Fund Balances on the Balance Sheet for the General Fund to Net Assets of Governmental Activities on the Statement of Net Assets

SEPTEMBER 30, 2005

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Fund balances - general fund	\$ 893,043
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	1,495,375
Deduct - accumulated depreciation	(696,534)

Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences	<u>(57,551)</u>
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Net assets of governmental activities	<u><u>\$ 1,634,333</u></u>
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The accompanying notes are an integral part of these financial statements.

# LAKELAND LIBRARY COOPERATIVE

## STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED SEPTEMBER 30, 2005

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
<b>EXPENDITURES/EXPENSES</b>			
General operating			
Support services	\$ 381,273	\$ 23,927	\$ 405,200
Delivery service	416,782	-	416,782
Interloan service	16,264	-	16,264
Machine-readable cataloging system	176,122	463	176,585
Information system	477,297	131,496	608,793
Telecommunication	285,230	20,645	305,875
E-mail	2,381	(204)	2,177
Miscellaneous	4,536	-	4,536
Universal Service Fund	19,039	-	19,039
GRAULS	5,045	-	5,045
<b>TOTAL EXPENDITURES/EXPENSES</b>	<b>1,783,969</b>	<b>176,327</b>	<b>1,960,296</b>
<b>PROGRAM REVENUES</b>			
Charges for services	1,240,884	-	1,240,884
Net program expenses			(719,412)
<b>GENERAL REVENUES</b>			
State aid	534,847	-	534,847
Universal service funds	218,336	-	218,336
Interest income	13,590	-	13,590
<b>TOTAL GENERAL REVENUES</b>	<b>766,773</b>	<b>-</b>	<b>766,773</b>
<b>Net change in fund balance</b>	<b>223,688</b>	<b>(223,688)</b>	<b>-</b>
Changes in net assets	-	47,361	47,361
<b>Fund balance/net assets</b>			
Beginning of the year	669,355	917,617	1,586,972
End of the year	\$ 893,043	\$ 741,290	\$ 1,634,333

The accompanying notes are an integral part of these financial statements.

# LAKELAND LIBRARY COOPERATIVE

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the General Fund to the Statement of Activities

YEAR ENDED SEPTEMBER 30, 2005

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Net change in fund balance - general fund	\$ 223,688
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	36,015
Deduct - depreciation expense	(205,752)
Deduct - disposal of capital assets	(320)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in the accrual for compensated absences	<u>(6,270)</u>
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Change in net assets of governmental activities	<u><u>\$ 47,361</u></u>
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The accompanying notes are an integral part of these financial statements.

# LAKELAND LIBRARY COOPERATIVE

## GENERAL FUND STATEMENT OF REVENUES EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2005

	BUDGET AMOUNTS		ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	AMOUNTS	
<b>REVENUE</b>				
General operating	\$ 116,459	\$ 126,998	\$ 123,842	\$ (3,156)
State aid	535,668	534,847	534,847	-
Machine-readable cataloging system	239,299	239,299	239,302	3
Information systems	533,966	577,473	575,347	(2,126)
Telecommunications	284,724	285,224	285,230	6
E-Mail	9,520	10,234	10,234	-
Miscellaneous programs	7,000	3,995	4,235	240
Universal Service Fund	-	216,683	218,336	1,653
GRAULS	-	2,287	2,694	407
Interest	3,000	3,000	13,590	10,590
<b>TOTAL REVENUE</b>	<b>1,729,636</b>	<b>2,000,040</b>	<b>2,007,657</b>	<b>7,617</b>
<b>EXPENDITURES</b>				
General operating				
Support services	400,789	400,789	381,273	19,516
Delivery service	453,340	454,247	416,782	37,465
Interloan service	22,304	22,304	16,264	6,040
Machine-readable cataloging system	185,952	185,952	176,122	9,830
Information systems	414,707	488,781	477,297	11,484
Telecommunication	285,000	285,500	285,230	270
E-Mail	4,500	4,500	2,381	2,119
Miscellaneous	7,000	5,000	4,536	464
Universal Service Fund	-	19,039	19,039	-
GRAULS	-	5,168	5,045	123
<b>TOTAL EXPENDITURES</b>	<b>1,773,592</b>	<b>1,871,280</b>	<b>1,783,969</b>	<b>87,311</b>
<b>Net change in fund balance</b>	(43,956)	128,760	223,688	94,928
<b>Fund balance</b>				
Beginning of the year	669,355	669,355	669,355	-
End of the year	<b>\$ 625,399</b>	<b>\$ 798,115</b>	<b>\$ 893,043</b>	<b>\$ 94,928</b>

The accompanying notes are an integral part of these financial statements.



# LAKELAND LIBRARY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Lakeland Library Cooperative (the “Cooperative”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Lakeland Library Cooperative (the “Cooperative”) was formed by the authority of Public Libraries Act 89 of 1977. The Cooperative provides interlibrary loan, reference and other services to member libraries in Allegan, Barry, Ionia, Kent, Montcalm, Muskegon, Newaygo and Ottawa counties.

#### **The Reporting Entity**

The Cooperative Library Board, a nine-member group appointed in accordance with a formula stated in Article V, Section I of the Cooperative bylaws, has governance responsibilities over all activities related to the Lakeland Library Cooperative. The Board receives funding from local, state and federal government sources and must comply with concomitant requirements of these funding entities. However, the Board is not included in any other governmental “reporting entity” as defined by the Government Accounting Standards Board since the Board members, who are appointed (as legislated by Public Libraries Act 89 of 1977) from Cooperative members, have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. In accordance with generally accepted accounting principles, there are no component units to be included in these financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

A combined financial statement is provided for the general fund and the statement of net assets and the general fund and the statement of activity. The general fund is considered to be a major fund for financial reporting purposes.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# LAKELAND LIBRARY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

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Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for the financial resources of the Cooperative.

### **Budgetary Data**

The annual budget is prepared by the Cooperative's management and adopted by the Cooperative Board; subsequent amendments are approved by the Cooperative Board. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (statement of revenue, expenditures and changes in fund balances – budget and actual – general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted by the Cooperative Board is included in the financial statements.

### **Capital Assets**

Capital assets, which include property and equipment are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Cooperative as assets with an initial, individual cost of more than \$500 and an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

# LAKELAND LIBRARY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (general fund balance sheet and statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

Depreciation is recorded over the following estimated useful lives of the assets, using the straight-line method:

	<u>Years</u>
Office furniture	3-15
Building	30
Building improvements	5-20
Vehicles	5
Training center furniture and equipment	3
Information system	3-5

### **Accrued Vacation and Sick Leave**

Under terms of the Cooperative policies, full time employees are granted 12 days of sick leave per year. Resignees shall be paid \$.50 per day for accumulated sick leave multiplied by the years of service, if greater than 10. Retirees are paid \$1.00 per day for accumulated sick leave multiplied by the years of service, if greater than 10. Vacation time is paid at the hourly rate of the employee.

### **Deferred Compensation Plan**

The Cooperative offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Cooperative employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Cooperative's financial statements.

## **2. CASH DEPOSITS AND INVESTMENTS**

### **Deposits and Investment**

The captions on the financial statements relating to cash and cash equivalents are as follows:

	<u>Governmental Activities</u>
Cash and cash equivalents	<u>\$941,992</u>

These deposits are in one (1) financial institution located in Michigan. State policy limits the Cooperative's investing options to financial institutions located in Michigan. All accounts are in the name of the Cooperative. They are recorded in Cooperative's records at fair value.

### **Investment and Deposit Risk**

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the Cooperative deposits may not be returned. State law does not require and the Cooperative does not have a policy for deposit custodial credit risk. As of year-end, \$860,355 of the Cooperative's bank balance of \$960,355 was exposed to credit risk because it was uninsured and uncollateralized.

# LAKELAND LIBRARY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

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The Cooperative believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Cooperative evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the Cooperative to deposit and invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

### 3. RETIREMENT PLANS

#### **City of Grand Rapids General Retirement System**

##### **Plan Description**

The Cooperative contributes to the City of Grand Rapids General Retirement System (City Retirement System), which is the administrator of a single-employer, trustee defined benefit plan. This plan covers all of the Cooperative's employees who became eligible prior to October 1, 1989. The Cooperative participates under a cost-sharing arrangement with the City. The City Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 233 E. Fulton, Suite 216, Grand Rapids, MI 49503.

##### **Funding Policy**

The funding policy for periodic employer contributions are at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay benefits when due.

##### **Contributions**

The employer contribution rate totals 16.30 percent for the period October 1, 2004 through June 30, 2005 and 16.24 percent for the period July 1, 2005 to September 30, 2005.

# **LAKELAND LIBRARY COOPERATIVE**

## **NOTES TO FINANCIAL STATEMENTS**

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Covered employees contribute 3.28 percent of eligible wages. The Cooperative's required and actual contributions to the City Retirement System plan for the years ended September 30, 2005, 2004, and 2003, were \$4,615, \$3,558, and \$1,280, respectively.

### **Cooperative Defined Contribution Plan**

#### **Plan Description**

The Cooperative participates in a defined contribution pension plan established by the Cooperative to provide benefits at retirement to the Cooperative director. At September 30, 2005 there was one plan member. Plan members are not required to contribute. The Cooperative is required to contribute 10% of annual covered payroll. The employer contribution for the year totaled \$8,849. Plan provisions and contribution requirements are established and may be amended by the Cooperative.

### **Municipal Employees Retirement System of Michigan**

#### **Plan Description**

The Cooperative participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering certain Cooperative employees. The System is administered by the MERS retirement board.

Act No. 220 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

#### **Plan Contributions**

The Cooperative is required to contribute at an actuarially determined rate of 4.59% of covered payroll; the current year amount was \$20,763. Participating employees are required to contribute 4% of covered payroll to the plan. The contribution requirements of the Cooperative are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the Cooperative and depending on the MERS contribution program adopted by the Cooperative.

For the year ended September 30, 2005, the Cooperative's annual pension cost of \$20,763 for MERS was equal to the Cooperative's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Cooperative's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

# LAKELAND LIBRARY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

### Three-Year Trend Information

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$12,699	100%	\$ -
2004	12,087	100%	-
2005	20,763	100%	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>(Overfunded) Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	\$366,102	\$344,309	\$(21,793)	106%	\$413,966	(5)%
12/31/03	429,517	395,515	(34,002)	109%	408,669	(8)%
12/31/04	492,643	477,071	(15,572)	103%	429,141	(4)%

#### 4. LONG-TERM LIABILITIES

Long-term liabilities of the Cooperative consists of the following:

	<u>Balance October 1, 2004</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Balance September 30, 2005</u>	<u>Due Within One Year</u>
Compensated absences	\$51,281	\$6,270	\$ -	\$57,551	\$ -
<b>Totals</b>	<b>\$51,281</b>	<b>\$6,270</b>	<b>\$ -</b>	<b>\$57,551</b>	<b>\$ -</b>

#### 5. LEASES

The Cooperative conducts a portion of its operations with leased vehicles and office equipment. Net rental expense on these leases was \$36,664 for the year ended September 30, 2005. These leases expire through 2007.

The following is a schedule of annual future minimum lease payments required on leases with remaining non-cancelable lease terms in excess of one year as of September 30, 2005:

2006	\$26,121
2007	13,506
	<u>\$39,627</u>

# LAKELAND LIBRARY COOPERATIVE

## NOTES TO FINANCIAL STATEMENTS

### 6. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Cooperative has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years. There were no significant reductions in insurance coverage during the past year.

### 7. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	<b>Balance October 1, 2004</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance September 30, 2005</b>
<b>Capital assets not being depreciated:</b>				
Land	\$ 76,518	\$ -	\$ -	\$ 76,518
<b>Capital assets being depreciated:</b>				
Office furniture	180,041	7,015	24,950	162,106
Building	229,553	-	-	229,553
Building improvements	79,154	5,133	-	84,287
Vehicles	119,899	-	69,143	50,756
Training center furniture and equipment	53,890	1,378	18,117	37,151
Information system	1,301,275	22,489	468,760	855,004
<b>Total capital assets</b>	<b>2,040,330</b>	<b>36,015</b>	<b>580,970</b>	<b>1,495,375</b>
<b>Accumulated depreciation</b>				
Office furniture	133,713	21,694	24,630	130,777
Building	22,956	7,652	-	30,608
Building improvements	25,283	6,121	-	31,404
Vehicles	119,899	-	69,143	50,756
Training center furniture and equipment	30,983	11,924	18,117	24,790
Information system	738,598	158,361	468,760	428,199
<b>Total accumulated depreciation</b>	<b>1,071,432</b>	<b>205,752</b>	<b>580,650</b>	<b>696,534</b>
Total capital assets being depreciated, net	892,380	36,015	580,970	722,323
<b>Net capital assets</b>	<b>\$ 968,898</b>	<b>\$(169,737)</b>	<b>\$ (320)</b>	<b>\$ 798,841</b>

### 8. SUBSEQUENT EVENT

On October 1, 2005 the Cooperative entered into three operating leases for delivery trucks. The leases have a 36-month term and total future minimum payments for the three leases amounts to \$111,350.

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